

**Washington – Pyongyang Tug-a-war over
Financial Sanctions Continues**

By

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U.S. financial sanctions are impeding progress in the Six Party Talks, although the Six Party Talks are to resume in Beijing on February 8, 2007, as China has recently announced. Financial officials from Washington and Pyongyang met in Beijing at the end of January for another inconclusive effort to hammer out an agreement that would start the phasing out of Washington's recent sanctions. North Korea has insisted since October 2005, that will not resume substantive discussion of its nuclear program at the Six Party Talks until these sanctions have been lifted. The next round of talks could collapse again, as happened in December 2006, unless the financial sanctions issue is resolved.

Washington claims its financial sanctions aim to teach North Korea respect for international agreements and US law. The U.S. Department of Treasury since June 2005 has alleged that North Korea has and continues to disrespect the US "sovereign" right to protect its currency from counterfeiting. The Bush White House has also maintained that the Pyongyang government is behind North Korea's export of illegal drugs and counterfeiting of U.S. currency and cigarettes.

President Bush in September 2005, reacting to the Treasury Department's claims, imposed new financial sanctions on North Korea just before the Six Party Talks' participants signed a joint statement designed to set the stage for a peaceful diplomatic end to Pyongyang's nuclear programs. These new sanctions compelled China, which regulates all banks in China, to freeze \$24 million in a North Korean bank account in Macau. The sanctions are separate from and in addition to some 26 other types of economic sanctions that the U.S. has imposed on North Korea since the Korean War began in June 1950.

Ever since, Pyongyang has refused to re-engage in substantive dialogue at the Six Party Talks. Senior U.S. negotiator Christopher Hill has repeatedly expressed optimism that the sanctions would soon be lifted, but each time the Treasury Department has refused to so. The late January financial talks in Beijing between U.S. Treasury Department Deputy

Secretary Glaser and his North Korean counterpart at Pyongyang's Bank of Trade apparently again proved inconclusive.

For Pyongyang, money is not the issue. Despite widespread poverty in North Korea, its government is not poor. The frozen \$24 million fund is not vital for North Korea's survival. Pyongyang's greater concern is maintaining two principles. First, North Korea refuses to submit to coercive economic and/or military pressure when engaged in diplomatic negotiations. Secondly, when dealing with Washington, it insists on "simultaneous steps." In other words, it will give something at the same time that it receives something, a principle established during the first US-North Korea nuclear negotiations of 1992-94. Otherwise, Pyongyang insists, progress toward a diplomatic resolution is impossible. North Korea maintains the same principles today. When Washington agrees to phase out its financial sanctions, Pyongyang will resume discussion of its nuclear programs.

Washington, on the other hand, appears to have a problem. The U.S. Treasury Department is struggling to prove its loud and repeated allegations about North Korea's alleged misconduct. Former Deputy Secretary of State Richard Armitage set up an office at the State Department in 2001 to collect such evidence. Actually, he had initiated this during the Clinton Administration when he formed a Republican Party funded working group to study North Korea's illegal activities. The Heritage Foundation, a conservative Republican think tank, subsequently published the group's findings in 2001. Most of its evidence dates from before 1997. Since 1998, available evidence strongly suggests that North Korea's involvement in illegal activities has declined steadily rather than increased.

The fact that North Korean officials and businessmen have deposited counterfeit U.S. money in Macau banks does not prove that the North Korean government printed the fake money, as the U.S. Treasury Department alleges. It is relatively easy to prove that North Korean officials and business firms deposited counterfeit U.S. currency in North Korean owned bank account, but proving that the North Korean government produced the fake U.S. currency is virtually impossible to do. Anyone could end up obtaining counterfeit money, especially if they gamble. Criminals around the world, including the United States, make counterfeit U.S. currency. Criminals in Columbia and China produce huge amounts of fake money. Criminals often "launder" or exchange their counterfeit money for real money when they gamble at a casino. Macau is especially notorious for its gambling casinos and the presence of international criminals.

Whether Washington will be able to prove its case against North Korea regarding its alleged illegal activities remains to be seen. Pyongyang has admitted that counterfeit cigarettes are produced in North Korea and has taken steps to end this.

More important than ending such criminal activity is achieving a peaceful diplomatic end to North Korea's nuclear issue. After all, this is imperative for sustaining peace and prosperity in Northeast Asia. Unfortunately, Washington's haggling over counterfeit funds is impeding progress toward this goal.